

Message Text

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ORIGIN EB-05

INFO OCT-01 EA-07 ADP-00 /013 R

66603

DRAFTED BY: EB/IFD/ODF:RSGELBARD

APPROVED BY: EB/IFD/ODF:REBENEDICK

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R 061632Z AUG 73

FM SECSTATE WASHDC

TO AMEMBASSY WELLINGTON

AMEMBASSY CANBERRA

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FOLLOWING SENT ACTION SANTIAGO BONN BRUSSELS LONDON PARIS MADRID
ROME BERN COPENHAGEN OSLO STOCKHOLM TOKYO OTTAWA FROM SECSTATE
JULY 23

QUOTE

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E.O. 11652: N/A

TAGS:EFIN, CI

SUBJECT: PARIS CLUB MEETING ON CHILE, JULY 12-13

REF: (A) STATE 130955; (B) PARIS 19356 REPEATED TO SOME AS

STATE 139932

1. SUMMARY: PARIS CLUB MET ON JULY 12-13, 1973 TO CONSIDER
CHILE'S REQUEST FOR DEBT RELIEF FOR 1973-1974. CREDITORS
CALLED ON GOC TO ADOPT EFFECTIVE STABILIZATION PROGRAM AS
PRIOR CONDITION TO CONSIDERATION OF RESCHEDULING TERMS.
WHILE NOT REQUIRING IMF STAND-BY, MEMORANDUM OF AGREEMENT
CALLS ON CHILE TO IMPLEMENT ECONOMIC PROGRAM WITHIN FRAME-
WORK OF RECOMMENDATIONS OUTLINED IN IMF REPORT OF JULY 5,
1973. CREDITORS REJECTED CHILE'S PROPOSAL OF 95 PERCENT
RESCHEDULING, BUT INDICATED SOME FLEXIBILITY IN TERMS COM-
PARED WITH 1972 AGREEMENT; U.S. NOTED THAT IT EXPECTS TERMS
TO BE A JUNCTION OF THE STABILIZATION PROGRAM. IMF STAFF

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WILL BE INVITED TO SANTIAGO BEFORE SEPTEMBER 30 TO PREPARE
REPORT FOR PARIS CLUB ANALYZING GOC STABILIZATION PROGRAM.
PARIS CLUB WILL MEET AGAIN IN FALL.

2. CHAIRMAN NEBOT INITIALLY PRESSED FOR REACHING RESCHEDULING AGREEMENT AT THIS MEETING. FRENCH, SPANISH, BELGIAN, SWISS, DUTCH, ITALIANS AND DANES ALSO INDICATED READINESS TO REACH AGREEMENT. HOWEVER, IN FACE OF U.S.-CANADIAN-U.K. POSITION, WITH SOME SUPPORT FROM GERMANY, NEBOT BACKED OFF HIS ORIGINAL POSITION AND VIGOROUSLY ESPOUSED THE NECESSITY FOR A CREDIBLE STABILIZATION PROGRAM AS A PRECONDITION TO RESCHEDULING. THE OTHER DELEGATIONS ACQUIESCED; IN CONTRAST TO EARLIER MEETINGS, NO VOICES -- EXCEPT SWEDEN, AS OBSERVER -- WERE RAISED IN DEFENSE OF CHILE'S REQUEST. NEBOT ALSO STRONGLY EXPRESSED TO CHILEANS THE PARIS CLUB'S CONCERN FOR A SATISFACTORY CONCLUSION FOR A SATISFACTORY CONCLUSION TO THE BILATERAL NEGOTIATIONS ON COMPENSATION. END SUMMARY.

3. FIRST DAY SESSION WAS OPENED BY NEBOT WITH DESCRIPTION OF CHILE'S DETERIORATING ECONOMIC SITUATION AND FAILURE TO MEET ECONOMIC COMMITMENTS MADE TO CREDITORS IN APRIL 1972. HE CONCLUDED, HOWEVER, THAT CHILE MIGHT BE ABLE TO SERVICE SOME PORTION, ALBEIT SMALL, OF THE 1973-74 DEBTS AND URGED CREDITORS TO REACH AN AGREEMENT NOW ON TERMS EASIER THAN THOSE GRANTED IN 1972.

4. BARNOUIN (IMF) WAS LESS OPTIMISTIC THAN NEBOT ON THE ECONOMIC OUTLOOK. ON THE EXPORT SIDE, HE THOUGHT AVERAGE COPPER PRICES DURING SECOND HALF 1973 WOULD BE LOWER THAN DURING FIRST HALF. ON IMPORT SIDE, HE STATED THERE WAS VIRTUALLY NO POSSIBILITY OF CUTTING BACK SINCE ORDERS FOR SECOND HALF HAD ALREADY BEEN PLACED. BARNOUIN SAID KEY TO STABILIZATION PROGRAM WAS NECESSITY TO CUT BACK DOMESTIC CONSUMPTION AND IMPORTS. HOWEVER, HE DID NOT FEEL THIS WAS POSSIBLE GIVEN CURRENT CHILEAN POLITICAL SITUATION. HE CONCLUDED THAT CHILE WAS NOT PREPARED TO ENTER INTO AN IMF STAND-BY. IN REPLY TO NEBOT'S SUGGESTION THAT ESCUDO DEVALUATION MIGHT IMPROVE BALANCE OF PAYMENTS OUTLOOK, BARNOUIN STATED THAT DEVALUATION WOULD NOT RESULT IN SHORT-TERM IMPROVEMENT. IT WOULD MERELY CONTRIBUTE TO RISE IN LIMITED OFFICIAL USE
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COST-OF-LIVING WITHOUT ANY DEMONSTRABLE IMPACT ON IMPORTS.

5. JONES (UK) SAID CREDITORS ARE ANXIOUS TO BE REPAID, BUT ASSERTED THAT BEFORE ANY CONSIDERATION OF TERMS FOR ANOTHER DEBT CONSOLIDATION, CHILE SHOULD BE REQUIRED TO IMPLEMENT A STABILIZATION PROGRAM. HE EXPRESSED DISAPPOINTMENT WITH CHILE'S FAILURE TO IMPLEMENT 1972 ECONOMIC COMMITMENTS.

6. CHAPIN (CANADA) STRONGLY URGED NEED TO BRING PRESSURE ON CHILE, BOTH ON QUESTION OF STABILIZATION PROGRAM AND ON SOLUTION OF COMPENSATION PROBLEMS WITH U.S. HE PROPOSED THAT IF CHILE WERE STILL UNABLE TO ACCEPT IMF STAND-BY,

THEN IT SHOULD WORK OUT AN ACCEPTABLE ALTERNATIVE SOLUTION WITH IMF ASSISTANCE.

7. LARSEN (U.S.O SUPPORTED UK AND CANADIAN INTERVENTIONS AND POINTED OUT DANGEROUS PRECEDENT WHICH WOULD BE SET BY GIVING CHILE SECOND RESCHEDULING AGREEMENT WITHOUT REQUIRING EFFECTIVE STABILIZATION PROGRAM. HE NOTED CHILE'S FAILURE TO FULFILL ALL COMMITMENTS OF 1972 AGREEMENTS, INCLUDING COMPENSATION ISSUES RELATED TO ARTICLE IV. HE CALLED FOR POSTPONEMENT OF DECISION ON CHILE'S REQUEST FOR DEBT RELIEF TO LATER MEETING, AFTER CHILE HAD DEMONSTRATED THAT EFFECTIVE STABILIZATION PROGRAM WAS BEING IMPLEMENTED. TERMS OF RESCHEDULING, HE NOTED, WOULD BE FUNCTION OF THESE COMMITMENTS, AND IT WAS PREMATURE ON PART OF CHAIRMAN TO SUGGEST ACCEPTANCE OF 95 PERCENT RELIEF AS REQUESTED BY CHILE.

8. NEBOT ASKED U.S. AND CANADIAN DELEGATIONS TO PROVIDE DETAILS OF PROPOSED STABILIZATION PROGRAM, SHORT OF IMF STAND-BY, WHICH WOULD BE ACCEPTABLE TO PARIS CLUB.

9. DURING LUNCH BREAK, U.S. AND CANADIAN DELEGATIONS AGREED TO PRESS STABILIZATION REQUIREMENT DURING AFTERNOON SESSION AND OFFER AS BASIC PROVISIONS THEREOF THE RECOMMENDATIONS INCLUDED IN THE FUND'S REPORT OF JULY 5, 1973, WHICH CHILE HAD APPROVED WITH INSIGNIFICANT CHANGES IN THE IMF BOARD OF DIRECTORS. THIS PROPOSAL WAS MADE BY U.S. DELEGATION IN THE AFTERNOON AND RESULTED IN LANGUAGE INCLUDED IN MEMORANDUM OF AGREEMENT. CANADIAN DELEGATE SUP-
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PORTED U.S. POSITION AND FURTHER NOTED THAT ISSUE OF COMPENSATION FOR NATIONALIZED PROPERTIES SHOULD BE CONSIDERED NOT ONLY AS BILATERAL ISSUE BUT ALSO AS IMPORTANT FACTOR AFFECTING CHILE'S INTERNATIONAL CREDITWORTHINESS AND ITS ABILITY TO ATTRACT NEW CREDITS.

10. AFTER SWEDISH DELEGATE'S COMMENT THAT BILATERAL ISSUES, REFERRING TO U.S./CHILE PROBLEMS, SHOULD NOT AFFECT DECISIONS OF PARIS CLUB, NEBOT STRONGLY ENDORSED CONTINUING VALIDITY OF ARTICLE IV PROVISIONS, ADDING THAT QUESTION OF INTERNATIONAL MORALITY WAS INVOLVED, THAT CHILE WAS EXPECTED TO FULFILL ITS COMPENSATION COMMITMENT UNDER APRIL 1972 ACCORD, AND THAT COMPENSATION FOR NATIONALIZED PROPERTIES WAS NOT A SECONDARY ISSUE.

11. GERMAN DELEGATE (THIEME) SUPPORTED U.S.-CANADIAN ARGUMENT THAT ANY TALK ABOUT TERMS BEFORE GETTING ECONOMIC COMMITMENTS WOULD BE PREMATURE. HE ALSO CALLED ON CREDITORS TO URGE CHILE TO SETTLE COMPENSATION ISSUES WITH U.S.

12. IN LATE AFTERNOON OF FIRST DAY, INOSTROZA, FOR CHILE REITERATED HIS JANUARY 1972 PROPOSAL FOR 95 PERCENT DEBT RELIEF FOR 1973 AND 1974. HE SAID CHILE IS FACED WITH ABNORMALLY HIGH REPAYMENT SCHEDULE DURING NEXT FOUR YEARS DURING WHICH 50 PERCENT OF TOTAL OUTSTANDING EXTERNAL DEBT IS DUE TO BE PAID. INOSTROZA OUTLINED SPECIAL MEASURES GOC IS TAKING, SPECIFICALLY THE RESTRUCTURING OF AGRICULTURE AND NEW LABOR RELATIONS IN COPPER MINES, WHERE WAGE INCREASES ARE NOW TIED TO PRODUCTIVITY INCREASES. HE ALSO STATED THAT GOC WORKING ON EXHAUSTIVE PLAN WHICH EMPLOYS NEW APPROACH TO NATION'S ECONOMIC AND SOCIAL PROBLEMS. INOSTROZA NOTED THAT STRUCTURAL CHANGES WHICH CHILEAN ECONOMY NOW EXPERIENCING MAKE IT IMPOSSIBLE FOR AUTHORITIES TO CONTROL PROBLEMS OF INFLATION, ETC., WITH TRADITIONAL ECONOMIC POLICY TOOLS. THEREFORE, HE CONCLUDED, GOC COULD NOT ACCEPT NEW DEBT RESCHEDULING AGREEMENT TIED TO STABILIZATION PROGRAM SUGGESTED BY IMF.

13. INOSTROZA MENTIONED THAT THERE HAD BEEN SERIES OF THREE HIGH LEVEL U.S.-CHILE TALKS ON COMPENSATION. HE SAID DURING FIRST MEETING GOC HAD FORMALLY PROPOSED 1914 LIMITED OFFICIAL USE
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TREATY BUT HAD NOT YET RECEIVED U.S. REPLY TO THIS PROPOSAL. INOSTROZA NOTED THAT IN THIRD MEETING U.S. HAD PROPOSED DIFFERENT PROCEDURE (FROM 1914 TREATY) AS METHOD OF RESOLVING BILATERAL DIFFERENCES OVER COMPENSATION, BUT HE DID NOT SPECIFY NATURE OF U.S. PROPOSAL. INOSTROZA ALSO STATED THAT THESE BILATERAL DISCUSSIONS HAD BEEN CARRIED ON IN PRAGMATIC SPIRIT AND HOPED THEY WOULD ULTIMATELY LEAD TO RESOLUTION OF BILATERAL PROBLEMS. (JAVIER URRUTIA OF CHILEAN DELEGATION LATER TOLD US IN CORRIDOR THAT ENGLISH TRANSLATION, WHICH HE HAD HEARD, OF INOSTROZA'S REMARKS ON STATUS OF BILATERALS WAS MISLEADING. ENGLISH TRANSLATION HAD INOSTROZA SAYING THAT GOC WOULD NOT RESPOND TO U.S. PROPOSAL UNTIL U.S. RESPONDED TO GOC PROPOSAL RE 1914 TREATY. URRUTIA SAID THIS TRANSLATION WAS INCORRECT AND OFFERED TO SET RECORD STRAIGHT).

14. IN REPLY TO INOSTROZA, NEBOT CITED SEVERAL ASPECTS OF ECONOMIC COMMITMENTS IN LAST YEAR'S AGREEMENT WHICH CHILE HAD NOT LIVED UP TO, AND EXPRESSED THE PARIS CLUB'S DISAPPOINTMENT AT THIS SITUATION. THE NORMAL PROCEDURE NOW WOULD BE AN IMF STAND-BY; FAILING THIS, IT IS UP TO CHILE TO OFFER A SUBSTITUTE PROGRAM FOR RESTORING ITS LONG TERM CAPACITY TO REPAY THE CREDITORS. NEBOT EMPHASIZED THAT ANY NEW DEBT CONSOLIDATION MUST REST ON A CREDIBLE STABILIZATION PROGRAM. HE SAID CHILE'S OFFER OF FIVE PERCENT PAYMENT WAS DERISORY AND UNACCEPTABLE TO THE CREDITORS. NEBOT ALSO STRESSED TO INOSTROZA THE IMPORTANCE ATTACHED BY THE PARIS CLUB TO COMPENSATION.

15. SECOND DAY MEETING WAS DEVOTED TO DISCUSSION AND DRAFTING OF MEMORANDUM OF AGREEMENT. AGREEMENT WAS FINALLY REACHED TO MAKE SPECIFIC MENTION OF ECONOMIC MEASURES PROPOSED BY JULY 5, 1973 IMF REPORT AS GENERAL FRAMEWORK OF STABILIZATION PROGRAM. ALTHOUGH CHILE REQUESTED THAT THIS LANGUAGE BE DELETED, AT CREDITORS INSISTENCE IT WAS LEFT IN FINAL MEMORANDUM OF AGREEMENT. NEBOT WAS ESPECIALLY TOUGH WITH INOSTROZA AT THIS POINT.

16. MEMORANDUM OF AGREEMENT CALLS ON GOC TO INVITE IMF MISSION TO SANTIAGO BEFORE SEPTEMBER 30, 1973 TO ANALYZE STABILIZATION PROGRAM TO BE ENACTED BY GOC AND TO PREPARE REPORT FOR PARIS CLUB. LARSEN (U.S.) ASKED BARNOUIN

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WHETHER IMF REPORT WOULD PROVIDE PARIS CLUB WITH IMF STAFF ASSESSMENT OF CHILEAN ECONOMIC MEASURES OR MERELY TRANSMIT INFORMATION RECEIVED FROM GOC AS HAD BEEN THE CASE OF REPORT DISTRIBUTED TO PARIS CLUB IN FEBRUARY 1972. BARNOUIN CONFIRMED THE FORMER, AND NOTED THAT IF U.S. AND OTHERS REQUESTED, REPORT COULD ALSO BE REVIEWED AND VOTED ON BY IMF BOARD BEFORE DISTRIBUTION TO PARIS CLUB.

17. MEMORANDUM OF AGREEMENT ALSO NOTES IMPORTANCE PARIS CLUB MEMBERS ATTACH TO PRINCIPLES OF ARTICLE IV OF 1972 AGREEMENT REGARDING RECOGNITION OF ALL DEBT AND PAYMENT OF THESE DEBTS AND COMPENSATION FOR NATIONALIZED PROPERTIES

18. PARIS CLUB NOW EXPECTED TO MEET IN FALL TO CONSIDER POSSIBLE RESCHEDULING TERMS IN THE LIGHT OF GOC PERFORMANCE ON STABILIZATION MEASURES. ROGERS

UNQUOTE ROGERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 10 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 06 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: hilburpw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE144612
Document Source: ADS
Document Unique ID: 00
Drafter: EB/IFD/ODF:RSGELBARD
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730869/abqcemxf.tel
Line Count: 254
Locator: TEXT ON-LINE
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) STATE 130955; (B) PARIS 19356 REPEATED TO SOME AS STATE 139932 1. SUMMARY: PARIS CLUB MET ON JULY 12-13, 1973 TO CONSIDER CHILE'S REQUEST FOR DEBT RELIEF FOR 1973-1974. CREDITORS CALLED ON GOC TO ADOPT EFFECTIVE STABILIZATION PROGRAM AS PRIOR CONDITION TO CONSIDERATION OF
Review Action: RELEASED, APPROVED
Review Authority: hilburpw
Review Comment: n/a
Review Content Flags:
Review Date: 07 SEP 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Sep-2001 by thigpegh>; APPROVED <10-Sep-2001 by hilburpw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PARIS CLUD MEETING ON CHILE, JULY 12-13
TAGS: EFIN, CI
To: WELLINGTON
CANBERRA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005